

**REPORT OF THE AUDIT OF THE
BOURBON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BOURBON COUNTY FISCAL COURT

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Bourbon County Fiscal Court for the fiscal year ended June 30, 2011.

We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$20,311,113 as of June 30, 2011. The fiscal court had unrestricted net assets of \$2,549,150 in its governmental activities as of June 30, 2011. The fiscal court had total debt principal as of June 30, 2011 of \$6,209,056 with \$526,542 due within the next year.

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Donnie R. Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bourbon County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bourbon County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows where applicable thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
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Members of the Bourbon County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bourbon County, Kentucky's basic financial statements as a whole. The combining fund financial statements and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2012, on our consideration of Bourbon County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

October 24, 2012

BOURBON COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Donnie R. Foley	County Judge/Executive
Mark Offutt	Magistrate
Marion Dawson	Magistrate
Barry L. Hay	Magistrate
James Mason	Magistrate
Donald R. McCarty	Magistrate
Cecil Foley	Magistrate
John N. Smoot	Magistrate

Other Elected Officials:

Gordon D. Wilson	County Attorney
John Ransdell	Jail Transport Officer
Richard S. Eads	County Clerk
Beverly Smits	Circuit Court Clerk
Mark L. Matthews	Sheriff
Woodford Wayne Turner	Property Valuation Administrator
Rosemary Kitchen	Coroner

Appointed Personnel:

Mary Allen Hedges	County Treasurer
Mary Allen Hedges	Occupational Tax Collector
Lucia Sparks	Finance Officer

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BOURBON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

BOURBON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 3,238,551
Total Current Assets	<u>3,238,551</u>
Noncurrent Assets:	
Permanently Restricted Assets:	
Cash and Cash Equivalents	325,577
Bonds - Government	474,077
Bonds - Corporate	1,564,914
Mutual Funds - Fixed	1,675,506
Mutual Funds - Equity	1,688,178
Mutual Funds - Taxable	352,911
Common Stock	1,810,085
Capital Assets - Net of Accumulated Depreciation:	
Land and Land Improvements	856,877
Buildings	9,467,937
Other Equipment	611,165
Vehicles and Equipment	400,544
Infrastructure Assets	4,053,847
Total Noncurrent Assets	<u>23,281,618</u>
Total Assets	<u>26,520,169</u>
LIABILITIES	
Current Liabilities:	
Revenue Bonds	255,000
General Obligation Bonds	265,000
Financing Obligations	6,542
Total Current Liabilities	<u>526,542</u>
Noncurrent Liabilities:	
Revenue Bonds	3,100,000
General Obligation Bonds	2,525,000
Financing Obligations	57,514
Total Noncurrent Liabilities	<u>5,682,514</u>
Total Liabilities	<u>6,209,056</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	9,181,314
Nonspendable	445,346
Restricted For:	
Protection to Persons and Property	20,469
Roads	60,346
Capital Projects	202,099
Debt Service	3,030
Permanent Funds	7,849,359
Unrestricted	2,549,150
Total Net Assets	<u><u>\$ 20,311,113</u></u>

The accompanying notes are an integral part of the financial statements.

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BOURBON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

BOURBON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues Received			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes
					in Net Assets
					<u>Primary Government</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary Government:					
Governmental Activities:					
General Government	\$ 4,152,881	\$ 73,745	\$ 177,596	\$ 1,019,649	\$ (2,881,891)
Protection to Persons and Property	1,877,842		701,142		(1,176,700)
General Health and Sanitation	652,373	13,092	7,500	450,553	(181,228)
Social Services	394,234				(394,234)
Recreation and Culture	250,038	20,741			(229,297)
Roads	990,764		215,256	1,348,288	572,780
Interest On Long-term Debt	248,541				(248,541)
Capital Projects	523				(523)
Total Governmental Activities	<u>8,567,196</u>	<u>107,578</u>	<u>1,101,494</u>	<u>2,818,490</u>	<u>(4,539,634)</u>
General Revenues:					
Taxes:					
Real Property Taxes					1,434,046
Occupational and Net Profits Taxes					1,970,370
Motor Vehicle Taxes					213,465
Other Taxes					76,102
Excess Fees					580,764
Miscellaneous Revenues					580,650
Investment Income					<u>158,305</u>
Total General Revenues					<u>5,013,702</u>
Change in Net Assets					<u>474,068</u>
Net Assets - Beginning (as restated)					<u>19,837,045</u>
Net Assets - Ending					<u>\$ 20,311,113</u>

The accompanying notes are an integral part of the financial statements.

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BOURBON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

BOURBON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Jail Fund	John Marston Educational Fund
ASSETS				
Cash and Cash Equivalents	\$ 2,334,127	\$ 202,438	\$ 32,671	\$
Cash and Cash Equivalents - Non-Expendable Trust				30,778
Bonds - Government				170,000
Bonds - Corporate				523,144
Mutual Funds - Fixed				
Mutual Funds - Equity				246,146
Mutual Funds - Taxable				
Common Stock				449,528
Total Assets	<u>2,334,127</u>	<u>202,438</u>	<u>32,671</u>	<u>1,419,596</u>
FUND BALANCES				
Nonspendable				237,022
Restricted for:				
Protection to Persons and Property			20,086	
Roads				
Capital Projects				
Debt Service				
Permanent Funds				1,182,574
Assigned To:				
Protection to Persons and Property			12,585	
Roads		202,438		
Unassigned:	<u>2,334,127</u>	<u>202,438</u>	<u>32,671</u>	<u>1,419,596</u>
Total Fund Balances	<u>\$ 2,334,127</u>	<u>\$ 202,438</u>	<u>\$ 32,671</u>	<u>\$ 1,419,596</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****June 30, 2011****(Continued)**

Clifton Gillespie Fund	Willmott Memorial Trust Fund	Public Properties Corporation Courthouse Bonds Fund	Public Properties Corporation Bond Proceeds Fund	Non- Major Governmental Funds	Total Governmental Funds
\$		\$ 202,099	\$ 3,030	\$ 464,186	\$ 3,238,551
7,252	118,411			169,136	325,577
	60,085			243,992	474,077
718,764	34,115			288,891	1,564,914
	1,113,550			561,956	1,675,506
	348,632			1,093,400	1,688,178
				352,911	352,911
631,512	661,196			67,849	1,810,085
<u>1,357,528</u>	<u>2,335,989</u>	<u>202,099</u>	<u>3,030</u>	<u>3,242,321</u>	<u>11,129,799</u>
				208,324	445,346
				383	20,469
				60,346	60,346
		202,099			202,099
			3,030		3,030
1,357,528	2,335,989			2,973,268	7,849,359
					12,585
					202,438
					<u>2,334,127</u>
<u>\$ 1,357,528</u>	<u>\$ 2,335,989</u>	<u>\$ 202,099</u>	<u>\$ 3,030</u>	<u>\$ 3,242,321</u>	<u>\$ 11,129,799</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2011
(Continued)

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 11,129,799
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	20,846,968
Accumulated Depreciation	(5,456,598)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(64,056)
Bonds	<u>(6,145,000)</u>
Net Assets Of Governmental Activities	<u>\$ 20,311,113</u>

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Jail Fund	John Marston Educational Fund
REVENUES				
Taxes	\$ 3,658,574	\$	\$	\$
Excess Fees	580,765			
Licenses and Permits	61,827			
Intergovernmental	1,845,264	1,563,544	142,777	
Charges for Services	16,385			
Miscellaneous	52,044	4,653	158	
Interest	28,535	3,421	255	39,493
Total Revenues	<u>6,243,394</u>	<u>1,571,618</u>	<u>143,190</u>	<u>39,493</u>
EXPENDITURES				
General Government	2,255,323			
Protection to Persons and Property	1,579,967		101,507	
General Health and Sanitation	637,481	14,892		
Social Services	221,403			
Recreation and Culture	231,907			
Roads		743,879		
Debt Service	370,016			
Capital Projects	523	791,755		
Administration	948,789	205,611	29,097	
Total Expenditures	<u>6,245,409</u>	<u>1,756,137</u>	<u>130,604</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,015)</u>	<u>(184,519)</u>	<u>12,586</u>	<u>39,493</u>
Other Financing Sources (Uses)				
Transfers To Other Funds	(200,000)			(54,073)
Transfers From Other Funds		200,000		
Total Other Financing Sources (Uses)	<u>(200,000)</u>	<u>200,000</u>		<u>(54,073)</u>
Net Change in Fund Balances	(202,015)	15,481	12,586	(14,580)
Fund Balances - Beginning	2,536,142	186,957	20,085	1,434,176
Fund Balances - Ending	<u>\$ 2,334,127</u>	<u>\$ 202,438</u>	<u>\$ 32,671</u>	<u>\$ 1,419,596</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES****CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****For The Year Ended June 30, 2011****(Continued)**

Clifton Gillespie Fund	Willmott Memorial Trust Fund	Public Properties Corporation Courthouse Bonds Fund	Public Properties Corporation Bond Proceeds Fund	Non-Major Governmental Fund	Total Governmental Funds
\$	\$	\$	\$	\$	\$ 3,658,574
					580,765
					61,827
			380,540	425,411	4,357,536
					16,385
5,969	127,066			4,502	194,392
47,804	13,480			38,797	171,785
<u>53,773</u>	<u>140,546</u>		<u>380,540</u>	<u>468,710</u>	<u>9,041,264</u>
					2,255,323
				50,933	1,732,407
					652,373
				172,831	394,234
					231,907
					743,879
			379,540		749,556
					792,278
	129,926			462,412	1,775,835
	<u>129,926</u>		<u>379,540</u>	<u>686,176</u>	<u>9,327,792</u>
<u>53,773</u>	<u>10,620</u>		<u>1,000</u>	<u>(217,466)</u>	<u>(286,528)</u>
(45,703)				(35,000)	(334,776)
				134,776	334,776
<u>(45,703)</u>				<u>99,776</u>	
8,070	10,620		1,000	(117,690)	(286,528)
1,349,458	2,325,369	202,099	2,030	3,360,011	11,416,327
<u>\$ 1,357,528</u>	<u>\$ 2,335,989</u>	<u>\$ 202,099</u>	<u>\$ 3,030</u>	<u>\$ 3,242,321</u>	<u>\$ 11,129,799</u>

The accompanying notes are an integral part of the financial statements.

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**BOURBON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

BOURBON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -
MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (286,528)
<p>Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Capital Outlay	911,855
Depreciation Expense	(650,890)
Net Book Value of Assets Disposed	(1,500)
<p>Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a use of Current Financial Resources.</p>	
Financing Obligations Principal Payments	6,131
Bond Principal Payments	<u>495,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 474,068</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

Bourbon County Fiscal Court (the County) presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences and other accruals, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Bourbon County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the County is financially accountable or the organization's exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the County's primary government using the blending method.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Bourbon County Public Properties Corporation

The Bourbon County Public Properties Corporation (the Corporation) cannot be sued in its own name without recourse to the Bourbon County Fiscal Court, which appoints a voting majority consisting of fiscal court members and the County Attorney. The Fiscal Court is able to impose its will on the Corporation, as the Corporation is created solely for the benefit of the fiscal court per Kentucky Revised Statute (KRS) 58.180 to act as an agent in the acquisition and financing of any public project. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within Bourbon County's financial statements as the Public Properties Corporation Courthouse Bonds Fund and the Public Properties Corporation Bond Proceeds Fund.

C. Bourbon County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Bourbon County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bourbon County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and modified cash basis of accounting and report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1, following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

John Marston Educational Fund - This fund was established by the will and codicil of John Marston. The will imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The primary purpose of this fund is to account for income generated by the principal. The income less applicable administrative costs is to be spent for educational scholarships. The County has a committee, appointed by the County Judge/Executive, that decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Clifton Gillespie Fund - This fund was established by the will and codicil of Clifton Gillespie. The will imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance with hospitals to indigent residents of Bourbon County. The County Judge/Executive decides who shall receive assistance from this fund by applications submitted. Each eligible person is limited to \$2,000.

Willmott Memorial Trust Fund - This fund was established by the will and codicil of James Worthington Willmott. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance to college students or potential college students living in Bourbon County, Kentucky and the counties adjacent to Bourbon County. The County has a committee, appointed by the County Judge/Executive, that decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Public Properties Corporation Courthouse Bonds Fund - The Public Properties Corporation Fund accounts for the activities of the Public Properties Corporation, a blended component unit of the County. The Public Properties Corporation issued debt to complete renovations on the courthouse. The Department for Local Government does not require the fiscal court to report or budget these funds.

Public Properties Corporation Bond Proceeds Fund - The Public Properties Corporation Fund accounts for the activities of the Public Properties Corporation, a blended component unit of the County. The Public Properties Corporation issued debt to construct/finance a judicial center. The Department for Local Government does not require the fiscal court to report or budget these funds.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Phase I Fund, Health and Welfare Fund, Educational Trust Checking Fund, E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meter Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, FM Gillespie Fund and the Ella Davis Fund.

Permanent Funds

The John Marston Educational Fund, Clifton Gillespie Fund, Willmott Memorial Trust Fund, E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meter Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, FM Gillespie Fund, and the Ella Davis Fund are considered permanent funds. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the county's programs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund.

Special Revenue Funds

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Phase I Fund, Health and Welfare Fund, and the Educational Trust Checking Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Project Fund

The Public Properties Corporation Courthouse Bonds Fund is presented as a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund

The Public Properties Corporation Bond Proceeds Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

F. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments of the County acquired with cash are recorded at cost because the amount of the cash disbursement represents the original fair value of the investment on the date of purchase. Recording unrealized gains or losses on investments is not a cash transaction and therefore reporting unrealized gains or losses does not meet the modified cash basis definition.

G. Capital Assets

Capital assets, which include land, non-depreciable land improvements, depreciable land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	25,000	10-75
Other Equipment	2,500	3-25
Vehicles and Equipment	2,500	3-25
Infrastructure	25,000	10-50

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated Mary Allen Hedges, County Treasurer, to carry out the intent of the fiscal court.

The County generally spends restricted resources first, when restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned revenues will be spent in that order on the activity.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fund Equity (Continued)

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Fund, the Public Properties Construction Fund, the Health and Welfare Fund, or the educational and other trust funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

K. Related Organization and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Judy Water Association is considered a related organization of Bourbon County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Paris-Bourbon County Economic Development Authority is considered a joint venture of the Bourbon County Fiscal Court.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 2. Deposits and Investments

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2011, the County had the following investments:

I. Cash	Cost					
Cash	\$ 18,925					
Money Market	306,652					
Total	<u>\$ 325,577</u>					

II. Investments	Cost				
	< 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years
Fixed Income Investments:					
Corporate Bonds	\$ 793,765	\$ 571,699	\$ 199,450	\$	\$
Government and Municipal Bonds		89,012	189,501	108,702	86,862
Total	<u>\$ 793,765</u>	<u>\$ 660,711</u>	<u>\$ 388,951</u>	<u>\$ 108,702</u>	<u>\$ 86,862</u>

	Cost
Other Investments:	
Common Stock	\$ 1,810,085
Mutual Funds	3,716,595
Total	<u>\$ 5,526,680</u>
Total Investments	<u>\$ 7,565,671</u>

Interest Rate Risk. The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk. KRS 66.480 limits the County's investments in the following:

- Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government.
- Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity.
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.
- Bankers' acceptances for bank's rate in one of the three highest categories by a nationally recognized rating agency.
- Commercial paper rated in the highest category by a nationally recognized agency.
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency.
- Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments.

Also, the County is limited to investing no more than 20% in any one of four specifically mentioned investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk. See the chart below for credit ratings for each individual investment type.

Investments and Credit Ratings

	Gov. Rated	Aa1/Aa2/Aa3	A1/A2/A3	Unrated	Cost
Fixed Income Investments:					
Government Bonds:					
US Treasury	\$ 198,319	\$	\$	\$	\$ 198,319
Other US Agencies	105,758				105,758
Municipal Bonds		170,000			170,000
Corporate Bonds		929,783	635,131		1,564,914
Common Stock				1,810,085	1,810,085
Mutual Funds		176,868	277,000	3,262,727	3,716,595
Total Investments:	\$ 304,077	\$ 1,276,651	\$ 912,131	\$ 5,072,812	\$ 7,565,671

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Concentration of Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. The Fifth Third Total Return Bond Fund is the only investment that exceeded five percent or more of the total investments for the County. The Fifth Third Total Return Bond Fund represents approximately 9% of total investments for the County.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2011, the County's investments were not exposed to custodial credit risk.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance (as restated)	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 856,877	\$	\$	\$ 856,877
Total Capital Assets Not Being Depreciated	856,877			856,877
Capital Assets Being Depreciated:				
Buildings and Improvements	11,557,337			11,557,337
Other Equipment	1,632,764			1,632,764
Vehicles and Equipment	1,391,998	120,100	(9,800)	1,502,298
Infrastructure	4,505,937	791,755		5,297,692
Total Capital Assets Being Depreciated	19,088,036	911,855	(9,800)	19,990,091
Less Accumulated Depreciation For:				
Buildings and Improvements	(1,890,293)	(199,107)		(2,089,400)
Other Equipment	(925,940)	(95,659)		(1,021,599)
Vehicles and Equipment	(1,018,815)	(91,239)	8,300	(1,101,754)
Infrastructure	(978,960)	(264,885)		(1,243,845)
Total Accumulated Depreciation	(4,814,008)	(650,890)	8,300	(5,456,598)
Total Capital Assets Being Depreciated, Net	14,274,028	260,965	(1,500)	14,533,493
Governmental Activities Capital Assets, Net	\$15,130,905	\$ 260,965	\$ (1,500)	\$15,390,370

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 135,539
Protection to Persons and Property	157,435
Recreation and Culture	18,131
Roads, Including Depreciation of General Infrastructure Assets	<u>339,785</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 650,890</u>

The County has elected not to report infrastructure assets retroactively; therefore, only infrastructure costs incurred since implementation of GASB 34 in fiscal year 2004 to present are reflected as a capital asset. Future infrastructure asset expenditures will be capitalized and expensed according to the capitalization policy adopted by the Fiscal Court.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-term Debt

A. Promissory Term Note Agreement

During fiscal year ended June 30, 1998, the Bourbon County Public Properties Corporation entered into a promissory term note agreement with Community Ventures Corporation for the purchase and renovation of a manufacturing facility. The Public Properties Corporation was obligated to pay \$131,500 in principal payments over seven years, beginning in 1997 and ending in 2004. On November 15, 2004, the Public Properties Corporation refinanced this promissory term note, with an obligation to pay \$98,656 in principal payments over sixty (60) months, beginning December 15, 2004, with a balloon payment scheduled to be made at the end of the note. On February 18, 2010, the Public Properties Corporation refinanced this promissory term note again, with an obligation to pay \$73,157 in principal payments over sixty (60) months at a stated interest rate of 6.25%, beginning March 15, 2010, with a balloon payment scheduled to be made at the end of the note. As of June 30, 2011, the outstanding principal balance of this note was \$64,056. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2012	6,542	3,876
2013	6,963	3,455
2014	7,411	3,007
2015	43,140	1,958
Totals	<u>\$ 64,056</u>	<u>\$ 12,296</u>

The note is secured by a mortgage lien on real estate located at 8 Legion Drive in Bourbon County.

B. First Mortgage Revenue Bonds, Series 2006 (Court Facilities Project)

On December 1, 2006, the Bourbon County Public Properties Corporation issued First Mortgage Revenue Bonds, Series 2006, in the amount of \$4,260,000 for the purpose of the defeasance of the 2000 Series Bonds, along with paying the associated costs of issuing the bond. Under this arrangement, the Corporation made provision for discharge of all bonds by depositing with the Trustee permissible investment obligations sufficient to pay all principal and interest requirements on the bonds to a permitted date of redemption, or to the date of maturity; consequently, the Corporation has no further liability for the bonds. Principal and interest payments are due February 1, beginning in 2009, and interest, which varies from 3.4% to 4.0%, is payable semiannually on February 1 and August 1, beginning February 1, 2007. As of June 30, 2011, the principal balance was \$3,355,000.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2006 (Court Facilities Project) (Continued)

Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 255,000	\$ 125,965
2013	260,000	117,040
2014	275,000	107,940
2015	280,000	98,040
2016	295,000	87,960
2017-2021	1,645,000	265,265
2021-2023	345,000	13,800
Totals	<u>\$3,355,000</u>	<u>\$ 816,010</u>

On December 1, 2006, Bourbon County entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that AOC agrees to pay 100% of the debt service requirements. The lease does not require Bourbon County to make any rental payments toward the project; however, Bourbon County is obligated to provide operation, maintenance, insurance and repair of the project.

The bonds are secured by a foreclosable first mortgage lien on the property and an assignment by the Bourbon County Public Properties Corporation of its rights, title and interest in the lease with the AOC.

C. General Obligation Public Project Bonds, Series 2006 (Courthouse Renovations I)

On October 1, 2006, the Bourbon County Public Properties Corporation issued \$2,000,000 of General Obligation Public Project Bonds, Series 2006, for the purpose of renovating the courthouse. Principal payments are due biannually on August 1, beginning in 2007, and interest, which varies from 3.5% to 3.75%, is payable semi-annually on August 1 and February 1, beginning on February 1, 2007. As of June 30, 2011, the outstanding principal balance was \$1,295,000.

The bonds are secured by the County's ability to levy, and its pledge to levy, an annual tax to pay the interest on and principal of the bonds.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-term Debt (Continued)

C. General Obligation Public Project Bonds, Series 2006 (Courthouse Renovations I)
(Continued)

Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 195,000	\$ 43,658
2013	200,000	36,645
2014	210,000	29,265
2015	220,000	21,497
2016	230,000	13,255
2017	240,000	4,500
Totals	<u>\$1,295,000</u>	<u>\$ 148,820</u>

D. General Obligation Public Project Bonds, Series 2007 (Courthouse Renovations II)

On February 1, 2007, the Bourbon County Public Properties Corporation issued \$1,750,000 in General Obligation Public Project Bonds, Series 2007, for the purpose of paying additional costs relating to courthouse renovations. Principal payments are due annually on February 1, beginning in 2009, and interest, which varies from 3.625% to 3.85%, is payable semi-annually on August 1 and February 1, beginning August 1, 2007. As of June 30, 2011, the outstanding principal balance was \$1,495,000. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 70,000	\$ 56,918
2013	70,000	54,363
2014	75,000	51,808
2015	75,000	48,995
2016	80,000	46,183
2017-2021	450,000	182,805
2022-2026	550,000	89,513
2027	125,000	4,813
Totals	<u>\$1,495,000</u>	<u>\$ 535,398</u>

The bonds are secured by the County's ability to levy, and its pledge to levy, an annual tax to pay the interest on and principal of the bonds.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-term Debt (Continued)

E. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

Primary Government:	Beginning		Ending	Due Within
<u>Governmental Activities:</u>	<u>Balance</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Revenue Bonds	\$3,600,000	\$ 245,000	\$3,355,000	\$ 255,000
General Obligation Bonds	3,040,000	250,000	2,790,000	265,000
Financing Obligations	<u>70,187</u>	<u>6,131</u>	<u>64,056</u>	<u>6,542</u>
Governmental Activities				
Long-term Liabilities	<u>\$6,710,187</u>	<u>\$ 501,131</u>	<u>\$6,209,056</u>	<u>\$ 526,542</u>

Note 5. Employee Retirement System

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The County's contribution rate for hazardous employees was 33.25 percent.

The County's contribution for FY 2009 was \$411,863, for FY 2010 was \$481,330 and FY 2011 was \$427,489.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Employee Retirement System (Continued)

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjust annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124 or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

The Bourbon County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2011, Bourbon County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Prior Period Adjustment

The beginning net assets balance for governmental activities has been changed due to errors in the previous years related to capital asset accumulated depreciation and the inclusion of the Wilmott Educational Trust Fund. The net effect on net assets of these adjustments is a \$2,342,602 increase in net assets for governmental activities.

Note 9. Change in Accounting Principles

The Bourbon County Fiscal Court implemented a new accounting standard, Governmental Accounting Standards Board (GASB 54) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet – Governmental Funds. The implementation also resulted in one fund previously presented as special revenue funds that no longer meet the definition to be rolled into the General Fund.

As a result, the beginning Fund Balance for the General Fund has been increased for the addition of the previously reported Wright House Fund. The effect of the change is a total increase of \$24,229 in the General Fund.

Note 10. Bourbon County-Nicholas County Regional Jail Authority

Under KRS 441.800 the Bourbon County Fiscal Court approved an order to form the Bourbon County – Nicholas County Regional Jail Authority, effective July 1, 2010, which will house inmates from both Bourbon and Nicholas Counties. Under KRS 441.810 the Regional Jail Authority is composed of members appointed by the county judges/executive of the respective counties, with Bourbon County appointing three members and Nicholas County appointing two members. Additionally, the Bourbon County Fiscal Court approved a four and half year management-and-use agreement, inclusive of a lease clause for the use of the Bourbon County detention center at \$1 per year.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 11. Contingencies

There are lawsuits and claims pending against the County. Although the aggregate amount asserted in such lawsuits is not determinable at this time, the Fiscal Court management believes that the ultimate outcome of these matters, after insurance proceeds, will not have a significant effect on the net assets of the County's funds.

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**BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2011

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	Local Government Economic Assistance Fund	Phase I Fund	Health and Welfare Fund	Educational Trust Checking Fund	E.M. Costello Fund
ASSETS					
Cash and Cash Equivalents	\$ 60,346	\$ 383	\$ 13,726	\$ 389,731	\$
Cash and Cash Equivalents - Non-Expendable Trust					1,189
Bonds - Government					39,137
Bonds - Corporate					
Mutual Funds - Fixed					
Mutual Funds - Equity					
Mutual Funds - Taxable					
Common Stock					
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>60,346</u>	<u>383</u>	<u>13,726</u>	<u>389,731</u>	<u>40,326</u>
FUND BALANCES					
Nonspendable					
Restricted for:					
Protection to Persons and Property		383			
Roads	60,346				
Permanent Funds			13,726	389,731	40,326
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>\$ 60,346</u>	<u>\$ 383</u>	<u>\$ 13,726</u>	<u>\$ 389,731</u>	<u>\$ 40,326</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2011
(Continued)

Garth Fund	Thomas Costello Fund	Hamilton Fund	Robert Meteer Fund	Lucy Anderson Fund	Harrell- Kennedy Fund
\$	\$	\$	\$	\$	\$
3,881	278	490	75,979	4,358	740
114,161	5,413	10,824			
			174,172		
			137,084	120,000	23,134
			336,137	135,608	10,735
			60,082	147,113	
			38,865		
<u>118,042</u>	<u>5,691</u>	<u>11,314</u>	<u>822,319</u>	<u>407,079</u>	<u>34,609</u>
42,612				44,446	20,000
<u>75,430</u>	<u>5,691</u>	<u>11,314</u>	<u>822,319</u>	<u>362,633</u>	<u>14,609</u>
<u>\$ 118,042</u>	<u>\$ 5,691</u>	<u>\$ 11,314</u>	<u>\$ 822,319</u>	<u>\$ 407,079</u>	<u>\$ 34,609</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2011
(Continued)

Elaine Hinkle Fund	Lou Redmon Fund	Howard Forquer Fund	May Goff Fund	Talbott Clay Fund
\$	\$	\$	\$	\$
1,625	2,096	31,997	786	7,987
		24,906		
		114,719		
8,893	16,493		31,164	116,238
16,762	12,169	282,108	29,288	139,466
	3,569	65,578	5,949	70,620
		28,984		
<u>27,280</u>	<u>34,327</u>	<u>548,292</u>	<u>67,187</u>	<u>334,311</u>
15,000	13,900		27,910	44,456
<u>12,280</u>	<u>20,427</u>	<u>548,292</u>	<u>39,277</u>	<u>289,855</u>
<u>\$ 27,280</u>	<u>\$ 34,327</u>	<u>\$ 548,292</u>	<u>\$ 67,187</u>	<u>\$ 334,311</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2011
(Continued)

Frances Champ Fund	FM Gillespie Fund	Ella Davis Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$ 464,186
2,123	27,243	8,364	169,136
49,551			243,992
			288,891
	80,058	28,892	561,956
	98,402	32,725	1,093,400
			352,911
			67,849
<u>51,674</u>	<u>205,703</u>	<u>69,981</u>	<u>3,242,321</u>
			208,324
			383
			60,346
<u>51,674</u>	<u>205,703</u>	<u>69,981</u>	<u>2,973,268</u>
<u>\$ 51,674</u>	<u>\$ 205,703</u>	<u>\$ 69,981</u>	<u>\$ 3,242,321</u>

The accompanying notes are an integral part of the financial statements.

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BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	Local Government Economic Assistance Fund	Phase I Fund	Health and Welfare Fund	
REVENUES				
Intergovernmental	\$ 35,411	\$ 390,000	\$	
Miscellaneous				
Interest	811	2,492	141	
Total Revenues	<u>36,222</u>	<u>392,492</u>	<u>141</u>	
EXPENDITURES				
Protection to Persons and Property	50,933			
Social Services			2,057	
Administration		458,148		
Total Expenditures	<u>50,933</u>	<u>458,148</u>	<u>2,057</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(14,711)</u>	<u>(65,656)</u>	<u>(1,916)</u>	
OTHER FINANCING SOURCES (USES)				
Transfer To Other Funds				
Transfers From Other Funds				
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	(14,711)	(65,656)	(1,916)	
Fund Balances - Beginning	75,057	66,039	15,642	
Fund Balances - Ending	<u>\$ 60,346</u>	<u>\$ 383</u>	<u>\$ 13,726</u>	

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011
(Continued)

Educational Trust Checking Fund	EM Costello Fund	Garth Fund	Thomas Costello Fund	Hamilton Fund	Robert Meteer Fund
\$	\$	\$	\$	\$	\$
4,502					
1,604	1,500	7,092	327	718	1,672
6,106	1,500	7,092	327	718	1,672
149,229					10,500
149,229					10,500
(143,123)	1,500	7,092	327	718	(8,828)
	(1,059)	(3,751)	(148)	(360)	
134,776					
134,776	(1,059)	(3,751)	(148)	(360)	
(8,347)	441	3,341	179	358	(8,828)
398,078	39,885	114,701	5,512	10,956	831,147
\$ 389,731	\$ 40,326	\$ 118,042	\$ 5,691	\$ 11,314	\$ 822,319

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011
(Continued)

Lucy Anderson Fund	Harrell - Kennedy Fund	Elaine Hinkle Fund	Lou Redmon Fund	Howard Forquer Fund
\$	\$	\$	\$	\$
5,204	465	252	93	5,766
5,204	465	252	93	5,766
		100	30	627
		100	30	627
5,204	465	152	63	5,139
(11,058)	(997)	(98)	(534)	(13,444)
(11,058)	(997)	(98)	(534)	(13,444)
(5,854)	(532)	54	(471)	(8,305)
412,933	35,141	27,226	34,798	556,597
\$ 407,079	\$ 34,609	\$ 27,280	\$ 34,327	\$ 548,292

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011
(Continued)

May Goff Fund	Talbott Clay Fund	Frances Champ Fund	FM Gillespie Fund	Ella Davis Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$	\$ 425,411
					4,502
984	5,248	3,921	115	392	38,797
984	5,248	3,921	115	392	468,710
					50,933
	10,288				172,831
			4,264		462,412
	10,288		4,264		686,176
984	(5,040)	3,921	(4,149)	392	(217,466)
(1,558)		(1,993)			(35,000)
					134,776
(1,558)		(1,993)			99,776
(574)	(5,040)	1,928	(4,149)	392	(117,690)
67,761	339,351	49,746	209,852	69,589	3,360,011
\$ 67,187	\$ 334,311	\$ 51,674	\$ 205,703	\$ 69,981	\$ 3,242,321

The accompanying notes are an integral part of the financial statements.

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BOURBON COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information – Modified Cash Basis

For The Year Ended June 30, 2011

BOURBON COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information – Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,196,900	\$ 3,196,900	\$ 3,658,574	\$ 461,674
Excess Fees	619,306	1,191,233	580,765	(610,468)
Licenses and Permits	52,600	52,600	61,827	9,227
Intergovernmental Revenue	2,990,692	6,246,162	1,845,264	(4,400,898)
Charges for Services	10,000	10,000	16,385	6,385
Miscellaneous	24,418	24,418	50,544	26,126
Interest	20,000	20,000	28,510	8,510
Total Revenues	6,913,916	10,741,313	6,241,869	(4,499,444)
EXPENDITURES				
General Government	1,712,385	4,871,641	2,255,160	2,616,481
Protection to Persons and Property	1,179,598	1,991,338	1,579,967	411,371
General Health and Sanitation	2,187,267	2,651,425	637,481	2,013,944
Social Services	247,982	247,982	221,403	26,579
Recreation and Culture	391,150	399,291	231,907	167,384
Debt Service	368,831	370,017	370,016	1
Capital Projects		523	523	
Administration	1,867,388	1,249,781	948,789	300,992
Total Expenditures	7,954,601	11,781,998	6,245,246	5,536,752
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,040,685)	(1,040,685)	(3,377)	1,037,308
OTHER FINANCING SOURCES (USES)				
Transfers Out	(959,315)	(959,315)	(200,000)	759,315
Total Other Financing Sources (Uses)	(959,315)	(959,315)	(200,000)	759,315
Net Changes in Fund Balance	(2,000,000)	(2,000,000)	(203,377)	1,796,623
Fund Balance - Beginning	2,000,000	2,000,000	2,511,913	511,913
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,308,536	\$ 2,308,536

BOURBON COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information – Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,230,742	\$ 1,579,732	\$ 1,563,544	\$ (16,188)
Miscellaneous	200	200	4,653	4,453
Interest	1,000	1,000	3,421	2,421
Total Revenues	<u>1,231,942</u>	<u>1,580,932</u>	<u>1,571,618</u>	<u>(9,314)</u>
EXPENDITURES				
General Health and Sanitation	40,000	40,000	14,892	25,108
Roads	801,900	838,421	743,879	94,542
Capital Projects	430,000	792,441	791,755	686
Administration	290,042	240,070	205,611	34,459
Total Expenditures	<u>1,561,942</u>	<u>1,910,932</u>	<u>1,756,137</u>	<u>154,795</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(330,000)</u>	<u>(330,000)</u>	<u>(184,519)</u>	<u>145,481</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>150,000</u>	<u>150,000</u>	<u>200,000</u>	<u>50,000</u>
Total Other Financing Sources (Uses)	<u>150,000</u>	<u>150,000</u>	<u>200,000</u>	<u>50,000</u>
Net Changes in Fund Balance	(180,000)	(180,000)	15,481	195,481
Fund Balance - Beginning	<u>180,000</u>	<u>180,000</u>	<u>186,957</u>	<u>6,957</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 202,438</u>	<u>\$ 202,438</u>

BOURBON COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information – Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 811,276	\$ 811,276	\$ 142,777	\$ (668,499)
Charges for Services	18,700	18,700		(18,700)
Miscellaneous	36,100	36,100	158	(35,942)
Interest	200	200	255	55
Total Revenues	<u>866,276</u>	<u>866,276</u>	<u>143,190</u>	<u>(723,086)</u>
EXPENDITURES				
Protection to Persons and Property	1,359,280	1,371,295	101,507	1,269,788
Administration	326,311	314,296	29,097	285,199
Total Expenditures	<u>1,685,591</u>	<u>1,685,591</u>	<u>130,604</u>	<u>1,554,987</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(819,315)</u>	<u>(819,315)</u>	<u>12,586</u>	<u>831,901</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>809,315</u>	<u>809,315</u>		<u>(809,315)</u>
Total Other Financing Sources (Uses)	<u>809,315</u>	<u>809,315</u>		<u>(809,315)</u>
Net Changes in Fund Balance	(10,000)	(10,000)	12,586	22,586
Fund Balance - Beginning	<u>10,000</u>	<u>10,000</u>	<u>20,085</u>	<u>10,085</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,671</u>	<u>\$ 32,671</u>

BOURBON COUNTY
NOTE TO OTHER INFORMATION

June 30, 2011

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Health and Welfare Fund, educational and other trust funds are not budgeted because the financial activity is determined based on legal or outside conditions and requirements.

Reconciliation of the General Fund

Total Revenues - Budgetary Basis	\$ 6,241,869
To adjust for Wright House Fund Revenues	1,525
Total Revenues - Modified Cash Basis	<u>\$ 6,243,394</u>
 Total Expenditures - Budgetary Basis	 \$ 6,245,246
To adjust for Wright House Fund Expenditures	163
Total Expenditures - Modified Cash Basis	<u>\$ 6,245,409</u>
 Total Fund Budget - Beginning - Budgetary Basis	 \$ 2,511,913
To adjust for Wright House Fund Beginning Balance	24,229
Total Fund Balance - Beginning - Modified Cash Basis	<u>\$ 2,536,142</u>
 Total Fund Balance - Ending - Budgetary Basis	 \$ 2,308,536
To adjust for Wright House Fund Ending Balance	25,591
Total Fund Balance - Ending - Modified Cash Basis	<u>\$ 2,334,127</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie R. Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated October 24, 2012. Bourbon County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Bourbon County Fiscal Court is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Bourbon County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bourbon County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bourbon County's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bourbon County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Bourbon County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

October 24, 2012

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

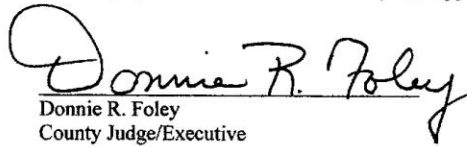
BOURBON COUNTY FISCAL COURT

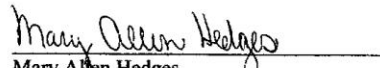
**For The Fiscal Year Ended
June 30, 2011**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BOURBON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Bourbon County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Donnie R. Foley
County Judge/Executive


Mary Allen Hedges
County Treasurer

